RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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May 28 DJIA 3527.43; PTI 3811; A-D Ratio -4.70
May 21 DJIA 3545.14; PTI 3819; A-D Ratio -4.68
Dow Yield: 3.10%; Dow Price/Earnings: 32.2
Dow 200-day MA: 3334; Dow 30-day MA: 3473
Dow Times Book Value: 2.72; PTI 89-day MA: 3768
Percentage of Undervalued Blue-chips: 7%
Low Risk Buy Index: +65

June 9, 1993 **LETTER 1123**

ITEMS: Make no mistake about it, the US government (the Fed) is in a deadly battle to hold back the price of gold. Wayne Angell (a powerhouse on the Fed) said last week in a CNBC interview that it's up to the US *"to make sure that the dollar's relationship with gold is stable . . . If the price of gold stays in a range of $330 to $350, I wouldn't be concerned. I think in those circumstances, exchange rate difficulties involving the dollar would disappear."*

There you have it, the Fed wants gold in the 330 to 350 range. That would be the signal to them that inflation was not a problem. Can the Fed hold gold in the 330-350 range? Would the Fed manipulate gold to hold it there? If the primary trend of gold is up, can any agency or government or central bank hold gold back? We shall see. But believe me, THE BATTLE AGAINST GOLD IS ON.

In a rather shocking development, Clinton has hired David Gergen, a veteran Republican, to be his spokesman. It's a sign of desperation from an administration that is drowning. And the party? The Democrats, are between a rock and a hard place -- Clinton's economic program is a disaster, and everyone knows it. If the program passes, the Dems will be looking for new jobs in '94. But if the program is killed, the Clinton presidency will be totally discredited. What's a Dem to do? Alter the program as much as you can, hold your nose, pass it, and pray that the nation doesn't sink back into recession or worse.

NOTE: Last week's lead-off article in *Barron's* (May 31) was a triple-interview that I thought was interesting. One interview was with Merrill Lynch's veteran analyst, Bob Farrell. A second was with the brilliant Ned Davis. The third was with a character named Richard Russell. Well, I was in good company.

THE MARKET: It's still a bull market, but it's become a strange bull market. Why strange? It's strange because it's been a very tough market to make money in -- even though the Dow has been hitting a series of new record highs.

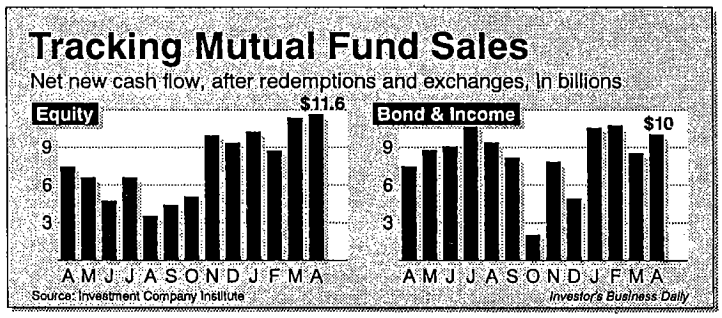
What we've been seeing is one group going up while another group goes down. As recently as mid-March the 5-day average of daily new highs on the NYSE was up at 230. But with the most recent new highs on the Dow, the 5-day average of new highs has sunk to around 80.

The market today reminds me quite a bit of the fellow who has one foot in ice water and one foot in near-boiling water. "It should be comfortable," says a friend. "The average temperature between the two is around 70 degrees."

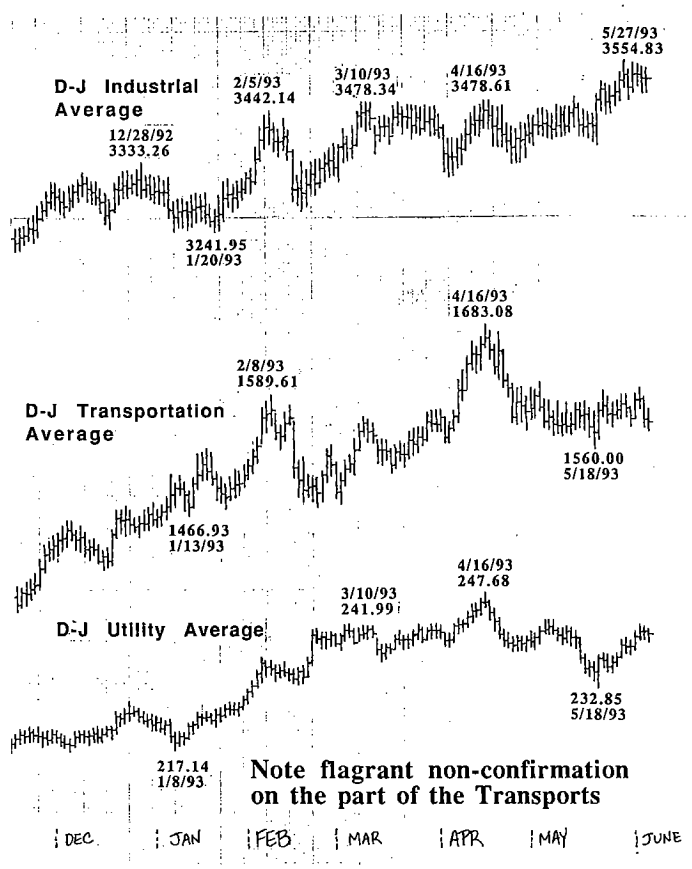
There's no question about one area -- the public continues to flood the funds with cash. This chart traces the massive amount of dollars that has been coming into both the stock and bond funds. And in turn, the funds have been pouring money into the stock market. The public is in stocks and bonds up to their necks. Frankly, I've never seen anything like it, and I don't like it (chart courtesy of *Investor's Business Daily*).

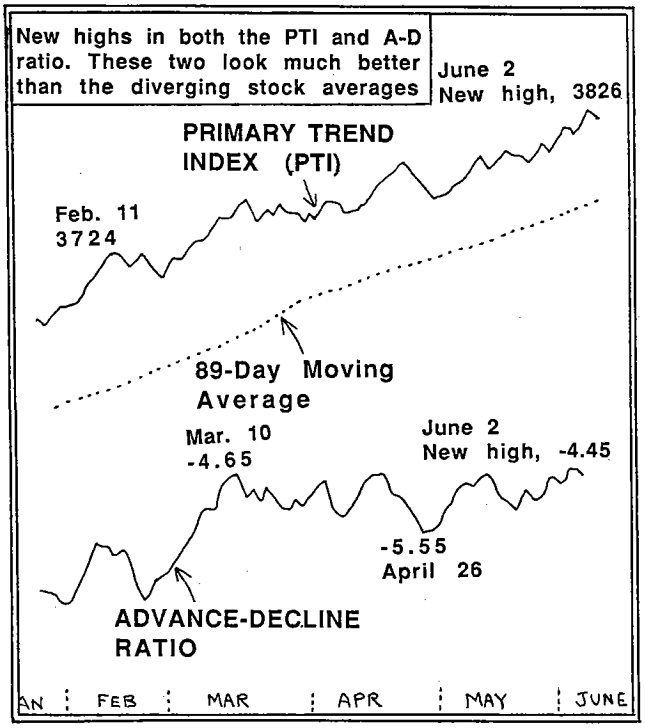
The Dow has been doing its solo act, rallying to new record highs, but with no confirmations (so far) from the other averages and indices.

However, it is well to note (see page 2 chart) that my Primary Trend Index (PTI) did hit a new high last week. The PTI is still in its bullish mode. I don't expect real trouble until the trend of the PTI turns decisively bearish.



The Buying Stampede that I have written about so often is still in force. It will remain in force until the advance-decline ratio registers a decline of one full point or more (incredibly, since October 9 we have not seen a full-point decline in the A-D ratio). However, it's been a very strange and deceptive Buying Stampede. Since early March (see page 2 chart) the A-D ratio has moved basically sideways, -- unable, it seems, to decide whether to break out or break down.





Currently, one of the interesting indicators is the Absolute Breadth Index. This is constructed by computing the daily differential between advances and declines. It makes no difference whether the differential is a plus or a minus. Thus 800 issues up and 600 down are treated the same as 600 up and 800 down (a 200 differential in both cases). A 25-day moving average of the differentials is then computed. At market tops the 25-day index shrinks considerably, whereas near market bottoms the 25-day index rises dramatically. Currently, the index is at its lowest total in decades. The implication is that this market is "churning," with (over a 25-day period) almost as many stocks declining as advancing. That's a negative signal that we should be aware of.

Conclusion: A lot of things about this bull market bother me. I know I have a lot of (skeptical) company, but so what -- I'm still bothered. And if my PTI turns down, I'm going to run.

INVESTMENT POSITION: The bull's in the box, stocks are still in a bull market, but it's a tired bull market, and an expensive one.

Many years ago when I was a young man with a full head of curly brown hair, a hugely successful trader said to me, "Dick, do you know why brokers never make money during a bull market?" I confessed that I didn't know. He answered, "They don't make money in bull markets because they never believe their own B.S. They're on the phone all day telling their customers, 'It's a bull market, buy, buy, buy,' but they don't really believe what they're saying, so they never buy anything for themselves."

That's a lesson I never forgot, and the trader's wise words have served me well over the years. Let me put it another way -- If you're convinced that you're in a bull market, then there's only one way to make money in it, and that's TO MOVE -- TO GET INTO THE BULL MARKET. Which means summoning up all your courage, calling your broker and BUYING. If you don't take a position in a bull market, you're not going to make any money. It's as simple as that.

What's that got to do with the present? Just this -- I ask myself, "Russell, are you convinced that the bull market in gold has resumed? Is this really the second phase of the gold bull market?" And I answer, "Yes, I'm convinced that this is a gold bull market." So I'll confess to you that I, personally, have loaded up with (1) gold options, (2) gold coins, (3) gold stocks. I've told myself, "Nothing ventured, nothing gained." If I'm convinced that it's a gold bull market (which I am), then blast it, I'm going to be in it.

OK, what to do about gold, assuming that you haven't done anything up to now? First, I think the options are too expensive to buy at this point. Many months ago when I was telling subscribers to buy the December 400 gold options for ninety cents to a buck, they were literally giving the options away. But at that time people were disgusted with gold -- nobody thought gold was going anywhere. Sentiment has changed, and the options are no longer a bargain (they're well over 10 bucks now).

Gold coins -- I've always liked them. They're beautiful, they represent "gold in your hand," you feel safe with them. Coins are immune to mine problems or labor problems, and they're lovely to have and hold. But coins don't give you any leverage. A hundred coins will cost you $38,000, and if gold goes up ten bucks you'll only have a thousand dollar paper profit. Still, it feels good to own some REAL money -- I have some gold coins, and I like them, and if that's your preference, fine, buy 'em (Amer. Eagles, Maple Leafs, Kruggies, etc.).

The stocks -- here you get more bang for your buck. Homestake was 10 dollars at the beginning of the year; as of last week it had almost doubled in price. Homestake has one advantage, it's the name everybody knows in connection with gold. HM also has considerable properties which they are developing. If you like gold, you should probably have some HM.

Hemlo Gold (ASE) is a sleeper, it acquired all the gold assets of Noranda, and it also operates Golden Giant Mine in Marathon, Ontario. I like it.

American Barrick, a stock I have been recommending for a few years now, has been a real winner. At this point ABX has 20% more gold reserves than Newmont Mining (Newmont has been considered the N. America's premier gold company). ABX is controlled by Peter Munk, a brilliant financier who put the company in the big time by buying the Goldstrike mine in 1986 (Goldstrike is the richest gold seam this side of S. Africa). ABX has been a big gold hedger, selling forward gold (via options) so that the company received an average price of $422 an ounce. I continue to like this stock.

But be aware of two phenomena: (1) In a bull market attention usually rotates from one stock in the group to the next and the next and then back to the first stock. (2) In the second phase of a bull market (which the golds are in) price action can be erratic, investors scare easily, and corrections against the primary bull trend can be sudden and sharp.

So I like diversification. I've been talking gold stocks for some time but I'll go over some choices again -- Pegasus, Echo Bay, Newmont Mining, Newmont Gold, American Barrick, Hemlo, Homestake, Placer Dome, Agnico-Eagle, Royal Oak.

THE PTI, HOW ARE WE DOING? A Canadian subscriber (Don Morson) was kind enough to send me this valuable rundown on the PTI. He titles it, "Summary of Signals (and Near Signals) by the PTI."

Feb. 10, 1988, Letter 984, PTI at 2647, Dow at 1910.48 -- PTI moved above its 89-day moving average (MA), Buy Signal.

March 9, 1988, Letter 986, PTI at 2669, Dow at 2057.86, PTI touched its MA, but did not penetrate on the downside, Hold.

June 12, 1988, PTI 2687, same as above, hold.

Sept. 7, 1988, PTI 2722, same as above, hold.

Feb. 12, 1990, Letter 1037, PTI at 3273, Dow at 2649.55, PTI slightly below its MA, but following it sideways. Hold.

April 18, 1990, Letter 1041, PTI at 3248, Dow at 2751.80, PTI dipped below MA. SELL SIGNAL. Profit of 841 points since last BUY signal.

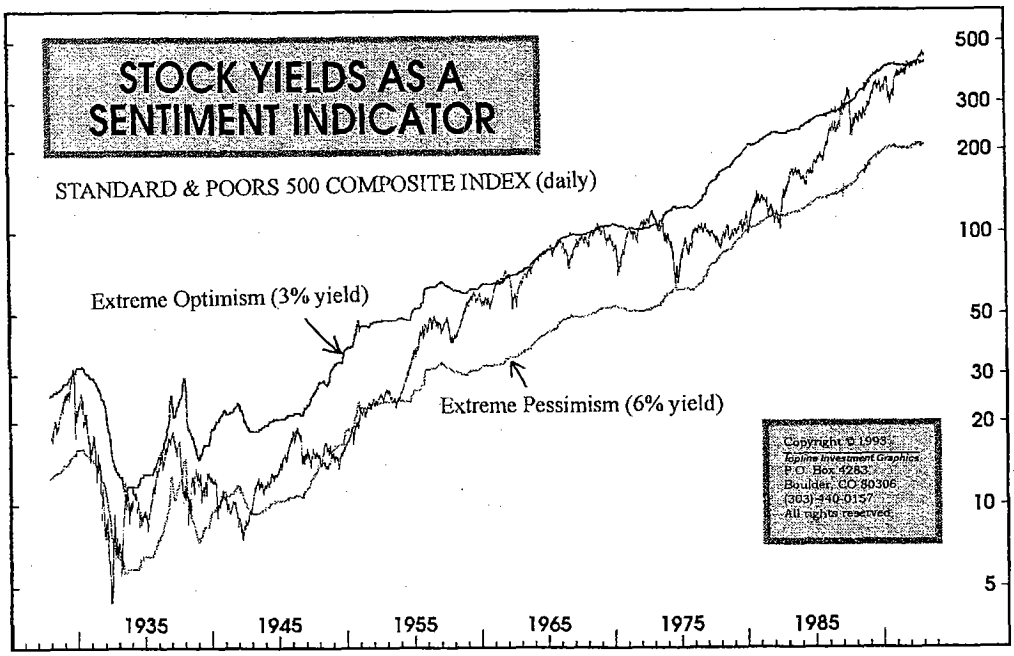
February 6, 1991, Letter 1062, PTI at 3166, Dow at 2730.69, PTI moves above its MA. BUY SIGNAL (profit of 21 Dow points).

Dec. 11, 1991, PTI touches its MA, but always
Dec. 24, 1991, bounces back. Hasn't come close
April 15, 1992, to touching MA since.

April 12, 1993, Letter 1121, PTI at 3786, Dow at 3437.19, Bull market still very much intact, Dow ahead by 706 Dow points since last BUY Signal!

That's the record over the last six years. Not bad. But Morson adds, "Yes, I realize you just cannot put out a half page Letter every two weeks or so, detailing the relative position of the PTI vis-a-vis the DJIA, but I find that, for me, that's really what your Letter is all about. However, I do enjoy reading the 'fluff' or 'padding,' so keep up the good work!"

Russell comment: Aw, that fluff and padding's got to go in, otherwise it wouldn't be any fun writing the Letter. Also, what about gold? What about stocks in a new bull market? What about Clinton, what about all the juicy little notes and quotes? Life is more than just the Dow and the PTI. Be kind to me.



YIELDS: This chart is as fundamental a picture of values as you can find. The chart (sent to me by my friend, John Carder) traces the yield on the S&P 500 going back to the late 1920s.

The study is particularly revealing. The upper line on the chart represents the 3% yield area for the S&P. The lower line shows where the S&P would be if it sold at a juicy 6% yield.

These are the two perimeters that, historically, define S&P valuation. At a 3% yield, history demonstrates that the S&P is treading on thin ice. Note on the chart that without exception, every time the S&P touched or moved above the 3% line, that was the prelude to trouble.

Conversely, any time the S&P sank to or below the 6% yield line, one could have profitably been accumulating stocks.

The only major exceptions to the 6% accumulation statement occurred as follows: at the 1932 bottom, at the depth of the Great Depression and at the final lows of that disastrous bear market, the S&P collapsed to an extraordinary yield of 10%. This took the S&P far below the 6% limits of the channel as seen on the chart. That 10% yield of the 1932 level has never been seen since.

During 1942-43, during the depths of World War II, when it actually looked as though the Allies might lose the war, the S&P dropped to slightly above a yield of 7%. Again, in June 1949, at a major bear market low, the S&P sank to a 7% yield.

In 1982, amid great pessimism, the S&P declined to the 6% yield zone. Note, on the chart, that all of these high-yield collapses were followed by major stock market advances.

The same story is repeated (in reverse) when the S&P yield shrank to or below 3%. Each of these low-yield areas were accompanied by a feeling of great confidence among investors and the public (as now, for instance), and each of these areas were followed by major market corrections or by primary bear markets.

So it's clear that informed investors accumulate stocks when the S&P yield rises to or above 6%. By the same token, informed investors distribute stocks when the S&P yield shrinks to or below 3%.

As to the present situation, the chart is very specific. We are now in one of those very rare areas where the S&P has pushed substantially above the 3% yield channel. This identifies the current area as one of amazing investor confidence and complacency.

We saw this same sentiment occur in early 1973 just prior to the crushing 1973-74 bear market. We saw it again in 1987, just prior to one of the worst crashes in stock market history. And we are seeing it here in 1993.

The yield chart holds a certain fascination for me because it totally eliminates explanations, excuses or cries of "this time it's different." The chart coldly deals with only two items, the S&P and its relation to yield.

Will it "be different" this time? Can investors continue to show profits with the yield on the S&P below the 3% yield line? Or will the current broad area of extraordinary investor complacency give way to disaster?

My answer: As far as disaster is concerned, it's not a question of whether, it's a question of when. Somewhere ahead the broad market will turn down, the bear will take over, and the S&P will begin its long journey to the 6% yield zone.

How this will happen, why it will happen, when will it happen -- all this is simply food for intellectual debate. But believe me, it WILL happen.

NOTES & QUOTES: The voices rising against the Clinton program have the ring of truth about them. This from *Business Week's* Paul Craig Roberts: "Never before in history has such an extraordinary array of new taxes been planned for the American people. There are higher tax rates on personal, corporate and Social Security income, a comprehensive energy tax that we will pay every time we use energy or purchase a good or service, a massive addition to the payroll tax, and an increase in the marriage penalty . . . Whether viewed from the demand side or the supply side, the Clinton tax plan is a death blow to economic activity . . . Government and its deficits will become greater burdens as a shriveled private economy labors under stark disincentives and diminished demands."

And this from syndicated columnist Kevin Phillips: "Even as wife Hillary is preparing a blueprint for America's moral regeneration sweeping enough to embarrass Joan of Arc, Bill Clinton has trapped himself in a maze of his own making -- of commitments divided between Wall Street and Main Street, between populism and elitism and between Christophe of Beverly Hills and Joe's Barbershop in Hope, Ark. This confusion exemplified by the Administration's new trickle-down economics of taxing the middle class back to prosperity through deficit reduction, is what has public confidence plummeting -- and put Clinton's credibility at risk.

"Presidential job approval keeps dropping to new record lows as more Americans reluctantly conclude that William Jefferson Clinton is what his enemies say: a $200 haircut in an empty ideological suit running a White House staffed out of Mr. Rogers' Neighborhood and the *Yale Daily News*. Each day now, Washington (and the country) asks: Where will it all end? . . . Alas, the weakness of the economic package now raising cold sweats on both sides of Capitol Hill reflects its roots in Clinton's fatal pattern of ambiguity and straddle. Voters are confused -- in part because Clinton is confused."

Russell comment: It's clear that the Republican game-plan reads like this: vote in a solid block against the Clinton program but at the same time hope that it passes. Then when the program turns out to be a disaster (which it will), prepare for a Republican sweep in the next election.

* *

A few weeks ago I joined my wife, Faye, at a San Diego Lawyer's Club dinner. The main speaker was Kathleen Brown (she's ex-governor Jerry Brown's sister). Ms. Brown (age 47) is now California State Treasurer, where she's in charge of $22 billion, the state pension fund. I was extremely impressed with Ms. Brown. She looks great, speaks extremely well, and above all talks sense. Among other things, she doesn't want to roll over the state's debt, she wants to pay it off (this from a Democrat!). I'll take bets that Kathleen Brown will be California's next governor. And it wouldn't surprise me at all if she was our first woman president. Repeat, I was very impressed by Ms. Brown.

* *

A few years ago when Faye and I would ride through Beverly Hills we noted that every house was priced at a million dollars or more. "It's ridiculous." I said, "It's absurd that anyone owning a house in here is automatically a millionaire." Today it's different. Home prices in Beverly Hills are down anywhere from 10% to 50%. But the picture is mixed. Ford has just announced the third price increase on its '93 models, thereby joining General Motors and Chrysler. Over the past year Japanese car prices have risen an average of 10%. The *Wall Street Journal* announces that as of July 1 the subscription price will be raised 7.2%. The Fed has gone on record as being ready to tighten on any forthcoming unfavorable inflation news (an act that would leave Clinton sputtering).

* *

Meanwhile, the super-strong yen is giving the Japanese fits. Prices in Japan for dollar-holding Americans are simply terrifying. A barber at a decent Tokyo hotel will charge 11,500 yen for a quick trim and a shampoo. To convert yen to dollars just knock off the last two zeros, which means that a trim and a shampoo will cost you about $115. I'm told the taxi fare from the airport to downtown Tokyo runs $100. Want to do business in Japan? What do you think it would cost you to run an office there?

* *

Letter received last week from a subscriber (Andy D.) from Raleigh, N.C. "I bought the gold 370s options of Dec. for $1.90 and then some 400s of Feb. for $5.20. I told my broker to buy 100, but he misunderstood and only bought 10. Life is short."

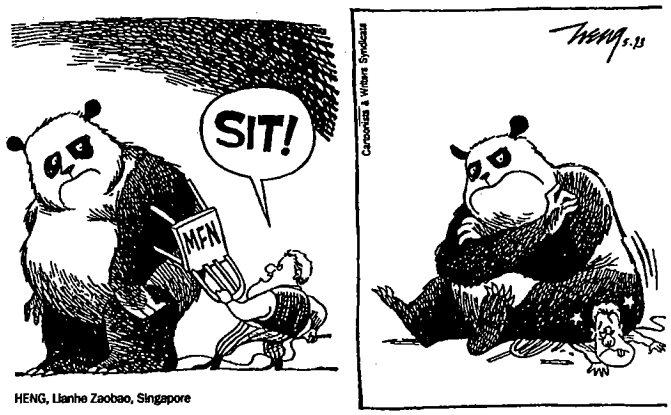
Russell comment: It works like this -- if what you bought goes up (and those options really went up) then, darn it, you didn't buy enough. If what you bought goes down, you bought too many. As for your broker's misunderstanding, this guy cost you a load of lost profits -- sue him or better still, see if he'll take you out for an expensive dinner (but hey, you better start reading those confirmation slips).

* *

I received a number of notes from subscribers telling me that the US Commerce Department "quietly" revalued gold from its official price of $42.22 to $345. (Listen, I don't care what the Commerce Department does, when the Treasury Department officially revalues gold to the current market price I'll be impressed.)

* *

Surprise, the latest figures show that the Chinese economy is now the third largest in the world (after the US and Japan). But the Chinese economy is also heating up, as this clip states. The problem for Clinton was whether to give China Most Favored Nation status. China has become a multi-billion dollar buyer of US goods, and this Singapore cartoon tells the story from the Asian viewpoint. When Clinton orders the giant China-panda to sit, it does so with unfavorable results for Mr. Clinton. Result -- Clinton gave China Most Favored Nation status.



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No one was more surprised than the Hong Kong cable company (Wharf Cable) when the Chinese government awarded it a 12-year pay-TV franchise. The endorsement also fired up the Hong Kong stock market which immediately rose to new record highs. In addition to the cable franchise, Beijing awarded a 15-year extension to a license for the local utility, Hong Kong Electric Holdings, Ltd. It's now patently clear that China is sending a message to the world -- the message is, "We're easing up, stop worrying, and oh yes -- business is welcome."

* *

Technological advance is creating what some observers fear is "a world without jobs." The new "technologists" theorize that in the world of tomorrow the developed nations will experience a new kind of society -- it will be a world in which most traditional jobs will simply disappear.

Jean-Claude Paye, the OECD Secretary General, says that in coming years only two percent of the work force in the industrial countries will be engaged in manufacturing (against the current 20%) and only one percent will be engaged in agriculture. If that's true, then an incredible 97% would have to work in the service industry. But in service too the jobs are being ravaged by technological advance. You see the omens everywhere -- in video shopping, ATMs, computerized tickets, FAX, etc.

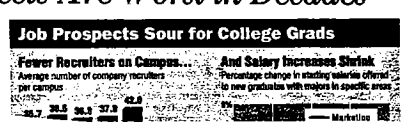
If the technologists are correct, then governments are going to be hit with a tide of unemployment which will leave their leaders and politicians baffled and battered. At present, these people seem to have almost no inkling of the tide that is sweeping the developed nations. This clip from the May 20 *WSJ* provides a grim confirmation of the above.

College Class of '93 Learns Hard Lesson: Career Prospects Are Worst in Decades

By Julie Amparano Lopez
Staff Reporter of The Wall Street Journal

SYRACUSE, N.Y. – Forget the usual graduation celebration. At Syracuse University's Kappa Kappa Gamma sorority house this month, you're more likely to see a crying session.

Only seven of Kappa's 31 graduating


Job Prospects Sour for College Grads
Fewer Recruiters on Campus...
Average number of company recruiters per campus
And Salary Increases Shrink
Percentage change in starting salaries offered to new graduates with majors in specific areas
Marketing

Furthermore, the cost of employees to business now constitutes a daunting expense. In the US it entails workman's compensation, medical and dental care, payroll taxes, additional paperwork, etc. - It's much cheaper to pay existing employees overtime or even to hire part-timers. All this points to the next slogan we may see at Democratic headquarters -- "It's jobs, stupid."

* *

Along these same lines, listen to this from the May 18 *Int. Herald Tribune:* "Microsoft plans to announce the following early next month -- a single employee at a personal computer station, will be able to orchestrate tasks such as sending a document to a fax machine for automatic distribution to branch offices, or program an in-house copying machine to print 500 copies of a corporate brochure -- with the 501st copy sent on a laser printer to an office of an overseas client." Russell question -- Do you know how many office workers that used to take? Think about it.

* *

The writing team of Nancy Dunnan and Jay Pack do a great job of making economics and the markets understandable. Their new paperback, "Market Movers" (Warner Books) is another winner. This 340-page volume covers everything that moves markets -- from Auto Sales to the Business Cycle to the Yield Curve to Fed Open Market Operations. The book is an education in itself and is highly recommended. It also contains ten chapters on "People Market Movers," and yours truly (blush) is included as one of the "movers." Mmm, I wonder how many of my 7,000 subscribers I succeeded in moving into gold?

* *

The times, are they a'changin'? When I was a kid being bad meant getting into a fist fight or maybe playing hooky from school and going down to the Paramount on 43rd Street to see Tommy Dorsey and Frank Sinatra. Today, clips like the accompanying two are common (both of these appeared on the same day last week). I have a 15-year old son, so I pretty much know what's going on among the younger set. I tell Ryan to stay away from dope, I tell him to cool it on sex, I tell him to please be careful when he's surfing, I tell him to stay away from certain areas of the city at night. Ryan's six feet tall, and he's had four years of Karate and Kung Fu, but I tell him that the best defense is "Don't be offensive." These days if you have a teen age boy or girl (I have both) you give them your best advice, you cross your fingers, and you hope God watches over them. But believe me, the times have changed. The key words today are anger, dope and violence.

Boy, 13, is shot in fight at school

Linda Vista

A 13-year-old boy was seriously wounded yesterday afternoon when he was shot in front of Montgomery Junior High School, police spokesman Bill Robinson reported.

The youth was taken to Sharp Memorial Hospital, where he was reported in serious condition.

The shooting occurred about 1 p.m. after heated words were exchanged by two groups of youths in front of the campus on East Jewett Street in Linda Vista, Robinson said.

One youth ran to a vehicle, picked up a small-caliber handgun and fired at least four shots, hitting the 13-year-old in both legs, the spokesman said.

Gang detectives are investigating the incident, Robinson said.

3 Teen-Agers Arrested in Carjack Killing

RIVERSIDE—Three teenagers, including a 13-year-old, were arrested on suspicion of murder in the fatal shooting of an Air Force sergeant during a carjacking attempt in Moreno Valley, authorities said Sunday.

The teen-agers were arrested late Saturday in the murder of Tech. Sgt. Yvonne M. Los. The arrests were made by sheriff's deputies who were serving search warrants on four Riverside County residences, said Detective Henry Sawicki.

The 13-year-old, who was being held in the county juvenile hall, was not identified because of his age.

* *

Memphis, Charlotte, Baltimore, Jacksonville and St. Louis are competing for two NFL expansion teams. The final choices will be made this October 26-28. The price will be highest in sports franchise history -- $140 million each. But with interest costs added and the fact that the new teams will not receive a full share of TV revenue for three years, the actual cost will be nearer $190 million. The last expansion teams joined the NFL in 1974, at which time the Seattle Seahawks and the Tampa Bay Buccaneers each paid a franchise fee of $16 million (inflation anyone?). In comparison, the newest expansion teams in baseball paid $95 million each.

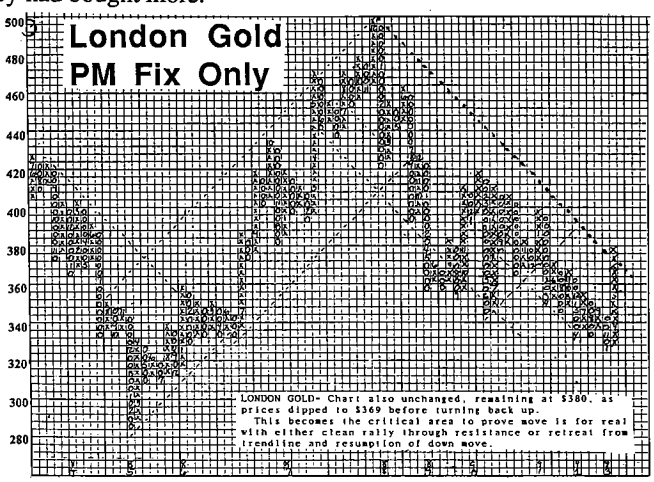
* *

As veteran subscribers know, I've followed the rising fortunes of famed Nebraskan Warren Buffet ever since I bought shares in Berkshire Hathaway at $250 back in the '60s (the shares hit $15,000 last week). Anybody familiar with Wall Street knows about Buffet and his amazing ability to turn thousands of dollars into millions.

But how many are aware that Buffet's father was a US Congressman from Nebraska? Congressman Howard Buffet was a great believer in an honest dollar that was redeemable in gold. The May 6, 1948, *Commercial and Financial Chronicle* carried a piece written by Howard Buffet. Buffet's piece ended this way (remember, it was illegal to own gold when this was written): *"I warn you that politicians of both parties will oppose the restoration of gold, although they may outwardly seemingly favor it. Also, those elements here and abroad who are getting rich from the continued American inflation will oppose a return to sound money. You must be prepared to meet their opposition intelligently and vigorously.*

"But unless you are willing to surrender your children and your country to galloping inflation, war and slavery, then this cause demands your support. For if human liberty is to survive in America, we must win the battle to restore honest money. There is no more important challenge facing us than this issue -- the restoration of your freedom to secure gold in exchange for the fruits of your labor."

Russell comment: The dollar is still not redeemable in gold. However, it is legal to buy gold on the open market with your non-redeemable dollars. Prediction: readers will live to see the day when they will look back at the "cheap" gold of 1993 -- and wish they had bought more.


London Gold
PM Fix Only
500
480
460
440
420
400
380
360
340
320
300
280
LONDON GOLD- Chart also unchanged, remaining at $380, as prices dipped to $369 before turning back up. This becomes the critical area to prove move is for real with either clean rally through resistance or retreat from trendline and resumption of down move.

Here's a point & figure chart of gold going back to 1984. At the 380 box, gold broke above the long down-trendline which started from the '87 high. From the bullish standpoint, gold should consolidate (as it's now doing), then rally to 384. That would take it decisively above resistance (the down-trendline represents technical resistance). Chart courtesy of *Chartcraft*, New Rochelle, NY 10801.

GOLD: *"You have to choose (as a voter) between trusting the natural stability of gold and the honesty and intelligence of members of the government. And with due respect to these gentlemen, I advise you, as long as the capitalist system lasts, to vote for gold."* George Bernard Shaw, 1856-1950, playwright and novelist.

Mr. Shaw knew what he was talking about. In all history, there has never been a paper (fiat) currency that has survived. But the gold

coins of the ancient Romans are still extremely valuable -- certainly as collector's pieces and obviously for the intrinsic value of their gold content.

The war of words against gold is in high gear. From every quarter we are warned to be careful of gold, to avoid it, to mistrust it. Fine, this is exactly the kind of sentiment we need to keep people out of a bull market.

We're in the early stages of this gold move, and in this phase you need to show people that buying gold is "dangerous." And that's exactly what the gold action of June 1 supplied. Buyers of gold were terrified as gold dropped 8.60 for the day. I told subscribers in the last Letter that gold had enjoyed a 30 dollar straight-up advance, and that a correction should be expected. It happened.

Two observations: (1) The initial "power surge" in gold during May (big price increase, big volume increase, reversal of long-term declining trendline) is typical of an early resumption of the bull trend. I call this action THE LAUNCH. (2) The sharp drop of June 1 was typical bull market corrective action, where the primary (upward) action tends to be more plodding, and the corrections tend to be sudden, short and violent.

The "name" analysts are continuing to warn the public against buying gold. "There's no inflation," we are told. And furthermore, "There's no inflation in our future." But the name analysts appear to have missed a few points. (1) Gold and gold stocks tend to discount what lies ahead, not what's happening today. (2) For the first time in many years the supply/demand equation is in favor of gold. The fact is that the world is buying and hoarding more gold than is now being produced. (3) Almost every nation in the world is running deficits, deficits that will ultimately be translated into inflation. Britain is now running massive record deficits of $1.5 billion a week. Germany's '93 deficit will be a record $42 billion. The US continues to run deficits of over $1 billion a day. All these deficits will be covered via production of new paper.

In China alone, the situation is changing dramatically. Inflation in China accelerated to almost 16% in the first quarter of '93 from 11% last year. The Chinese stock market is limited in size, as is their bond market. And there are hundreds of millions of Chinese who are worried about galloping inflation and the precipitous decline of the yuan. In an article on newly prosperous ("yuppie") Shanghai, the *Int. Herald Tribune* quotes a prominent jeweler, "Shanghai has resumed its urge to be a commercial capital. But the people have never had anything, and when they buy a handbag it's not because of the styling, it's because it's leather. But first the people want gold, and then they want a diamond."

I thought the following was very significant: the son of China's most powerful leader, Deng, recently bought into China's foremost steel company. In so doing, Deng's son has joined a long list of high-ranking Chinese who are making money the free-enterprise way. In other words, Chinese style capitalism is now receiving its most important "OK," and it's coming from the men who rule China.

The importance of the Chinese situation (the clip is from the *International Herald Tribune*) should be not be lost on those holding gold or Hong Kong stocks.

More technical: The commercials (large interest) are presently holding a huge short interest in gold. If the primary trend of any item is bullish and a large short interest has been built in, then the scariest condition facing the shorts is a market that dries up (i.e., volume shrinking) without setting off any substantial downside action. This is what has happened, so far, with gold. The huge short position in gold appears to be "locked in." I would say that if gold can hold above 370 (basis the June contract) while the metal continues to consolidate, this would be extremely bullish.

Along these lines, my capable assistant, the lovely Ms. Lynn Hunter, has worked out the short interest ratios in the various gold shares. To do this we divide the average daily volume for the latest month by the actual short position for that same month. The higher the S.I. ratio, the more bullish the situation. There is nothing more bullish than a stock in a bull trend with a high short interest.

To exit profitably, short sellers need a high volume decline. If volume dries up on any attempt to decline, the shorts are locked in and squeezed (and, of course, they will become frightened). Consequently, the shorts will eventually be forced to cover at higher prices -- usually during the next rally.

The highest short interest ratios for the gold shares are as follows: Freeport McMoran Copper and Gold (short ratio -- 11.09); Battle Mt. Gold (7.13); ASA (6.56); Amer. Barrick (6.19); Amax Gold (5.36); Newmont Gold (4.37); Coeur D'Alene (silver and gold -- 7.13).

Note: During a bear market I ignore all short interest totals and short interest ratios because in a bear market the shorts are aligned correctly -- they are right. But in a bull market it's an entirely different story, and a high short interest is basically bullish since the short sellers are aligned on the wrong side of the strongest force in the market -- the primary trend.

An article in the May 30 *NY Times* spotlighted ABX, but at the end of the article there were a few sentences that really caught my eye. Peter Munk is friendly with George Soros (they're fellow Hungarians). Soros is the investment genius who made a billion dollars on the recent demise of the pound sterling; he is also the fellow who made the headlines by purchasing 20% of Newmont Mining. At any rate, in the *Times* piece Munk was quoted as saying, "George (Soros) tells me I'm a fool because I hedge my gold. He (Soros) now believes gold is going to $1,000. But George has a different business. He may make a bet on Indian rupees. He doesn't run a business the way I do." Russell comment: Interesting, but it was Soros' statement that gold could go to $1,000 that interested me. Soros is no fool.

LATE NOTES: Latest US unemployment rate down slightly to 6.9%. Rising gold plus lower unemployment equal pressure on the Fed to raise rates a bit which in turn produces lower bond prices and a stronger dollar . . . But the BIG picture is global competitive devaluations as one by one the various currencies of the world are knocked off by the FOREX traders (note: last week China devalued its currency nearer to black market rates as the yuan dropped 25% to 10.17 to the dollar). Meanwhile, the ruble has crashed to over 1,000 to the dollar. Question -- with continuing huge US deficit + Clinton, how long can the dollar hold up? Slowly dawning on the world's consciousness -- there's only one long-term island of safety -- gold.

The stock market? It continues to meander generally sideways with an upward bias -- but it's a devil of a market to make money in. Meanwhile, mutual funds continue their almost ridiculous proliferation with a new one popping up almost daily.

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Industrial Production In China Soars 23%

BEIJING (AP) — In another sign that China's economy is overheating, industrial production for the first four months was up nearly one-fourth from a year earlier, an official report said yesterday.

The Xinhua News Agency also reported the cost of living in China's 35 major cities last month was up 17% from April 1992, indicating inflation remains a threat to the economy.

An investment binge fueled the 23% jump in industrial production, Xinhua News Agency quoted State Statistics Bureau officials as saying.

Deng's Son Joins Hong Kong's Latest 'Back-Door' Purchase

HONG KONG – The alliance between one of Hong Kong's richest men and China's biggest steel company has picked up a powerful new partner: Deng Zhifang, son of China's paramount leader, Deng Xiaoping.

Li Ka-shing's Cheung Kong Holdings Ltd., a property-sales concern, and China's Shougang Corp., partners since last year's acquisition of Tung Wing Steel Holdings Ltd., teamed up with the younger Mr. Deng and a handful of other high-profile names to pay 582 million Hong [illegible] 3 million) for a 74%